

# Non-Bank Financial Institutions: A Study of Five Sectors

for the

## Financial Crimes Enforcement Network

Final Report

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# Non-Bank Financial Institutions: A Study of Five Sectors

## 1. Executive Summary

### *1.1 Purpose and Scope*

The purpose of this study is to provide the Financial Crimes Enforcement Network (FinCEN) with factual profiles of five sectors of non-bank financial institutions (NBFIs), based upon their size, services, geographic and transaction attributes.

FinCEN has regulatory responsibilities

for a wide variety of financial institutions, and needs current, and detailed information on those financial institution industry elements subject to its regulatory authority. Senior policy makers need to make regulatory decisions based on the best available information, so as to ensure that their public responsibilities are discharged fairly and effectively. In the near future, FinCEN will be proposing significant changes to its regulatory requirements relating to certain "non-bank financial institutions" (identified below) and will need basic information concerning the

size, extent, revenue derived and nature of the businesses that offer these financial services to the public.

In order to provide reliable information, we:

- . conducted an intensive discovery process -- identifying and cataloging conventional and unconventional sources of data, through similarly conventional and unconventional means;
- . investigated these sources to the extent possible in connection with

the scope of the study;

- utilized internal resources and networks of professionals to obtain key information;
- opened channels of communication with major industry participants and state regulators; and
- utilized innovative quality analysis techniques to identify and highlight meaningful indicators and trends.

The five NBFIs covered by the

study are:

- Money Transmission
- Travelers Check
- Money Order
- Retail Foreign Currency Exchange
- Check Cashing.

### *1.2 Findings*

1. In 1996, the five NBFIs sectors accounted for approximately \$200 billion in transactions. (See Exhibit 1-1).

- Approximately one-half of this

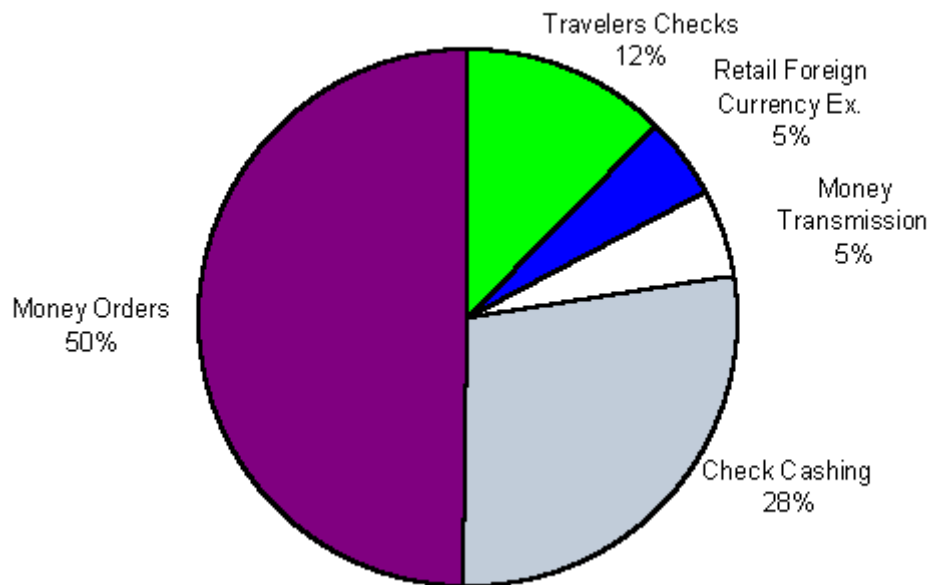
amount was attributable to the money order sector.

- . About one-quarter of this amount was attributable to the check cashing sector.
- . Approximately twelve per cent was attributable to the travelers check sector, and about five percent each to money transmission and retail foreign currency exchange sectors.

A more detailed discussion of transaction volume is provided in Section 4, *NBFI Industry Profile -- The*

## *Big Picture.*

Exhibit 1-1  
Face Value <sup>1</sup> of Each NBFI Sector  
- for 1996 -



**2. Most businesses that offer one NBFI service offer multiple NBFI and other (non-financial) services.**



- Check cashers almost always offer ancillary services, usually money orders, money transmission and numerous non-financial services.
- Travel-related and financial services businesses often sell travelers checks and offer cash conversion of foreign currencies to their clients.
- Many grocery<sub>2</sub>, liquor, convenience and drug stores offer money orders; some (grocery stores especially) also offer money transmission services.

For a more detailed discussion, see section 3.2, Primary and Ancillary Services, and Sector Profiles, Sections 5 through 9.

**3. There are approximately 158,000 total business locations for NBFIs.**

Exhibit 1-2  
(Exhibit 1-2 not included)

- . Approximately 92% of these outlets sell money orders; more than one quarter of which are U.S. Postal Service locations.
- . Three states, California, New York

and Texas, have more than 10,000 outlets and collectively account for more than 25% of all NBFIs outlet locations.

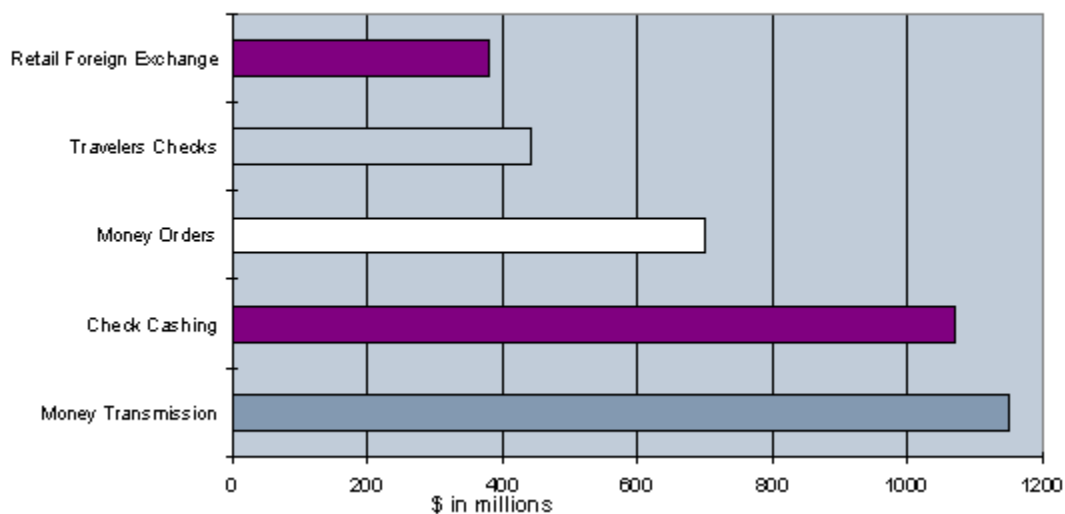
- Approximately 41,500 NBFIs outlets offer more than one of the five NBFIs services covered by this study.

For a more detailed discussion, see Section 4, *NBFI Industry Profile -- The Big Picture*.

4. In 1996, NBFIs generated approximately \$3.7 billion in revenue.

(See Exhibit 1-3).

Exhibit 1-3  
NBFI Sector Revenue  
- for 1996 -



- Money transmission is characterized by an average fee of approximately 10% of money transmitted, and accounts for approximately 30% of total five sector revenues.

- . With an average fee per transaction of approximately 2%, the check cashing sector accounts for slightly under 30% of all NBFIs revenues.
- . At the product level, money orders generate the least revenue per transaction, sometimes resulting in a loss.

5. Given current trends, the money transmission and check cashing sectors will likely grow more rapidly than the other three sectors during the next five

years. It is estimated that:

- . The money transmission sector will continue to grow at a rate of approximately 15% per year.
- . The check cashing sector will continue to grow at a rate of approximately 11% per year.
- . The money order and travelers check sectors are more mature from a marketplace standpoint, and will grow at a rate of 5% or less per year.

For a more detailed discussion, see Sections 5, 6, 7 and 9.

6. Three of the five NBFIs sectors are concentrated; two of them are fragmented.

- . Two issuing companies, in the money transmission and travelers check sectors, account for 97% of the respective markets.
- . Three businesses in the money order sector account for 88% of the market.
- . Two businesses in the foreign exchange sector make up 40% of

the retail foreign currency exchange market.

- . No single business accounts for more than 13% of the check cashing sector.

For more detailed discussion, see Exhibits 5-1, 6-1, 7-1, 8-1 and 9-1.

## 2. Confidentiality

Throughout this fact-finding exercise, all persons queried were assured of the confidentiality of their individual responses. In many cases we received data from third parties primarily as a



result our assurances that such data would be protected from disclosure. Several third parties specified that we were to use the information they provided, much of it proprietary, only in the aggregate. Confidence is crucial to Coopers & Lybrand's (C&L) many business relationships. C&L appreciates Treasury's support of these requirements.

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### 3. Terms and Attributes

#### *3.1 NBFIs Sectors*

Prior to conducting our analysis, we

found it critical to develop clear and simple working definitions of the five NBFIs sectors:

- **Check Cashing.** Non-banks offering check cashing as the primary service.
- **Money Transmission.** Non-banks with global networks through which they transfer money.
- **Money Orders.** Non-banks issuing money orders.
- **Travelers Check.** Non-banks issuing

travelers checks.

- **Retail Foreign Currency Exchange.**<sup>3</sup>

Non-banks offering over-the-counter conversion of physical bank notes of one country for that of another.

From a business perspective, there is no "non-bank financial institution (NBFI) industry." There are many businesses in the United States that offer one or more types of financial services, often bundled with other types of services under the same roof. The term NBFI came into common usage with the passage of The Annunzio-Wylie Anti-

Money Laundering Act of 1992, which expanded the Bank Secrecy Act (BSA) regulatory definition of "financial institution" far beyond the scope of traditional, deposit-taking institutions.<sup>4</sup>

While it might be argued that the five types of business products or services within the scope of this study (see definitions above) could constitute separate industries, we refer to them as NBFIs service sectors.<sup>5</sup> To qualify as an NBFIs,<sup>6</sup> a business needs to offer at least one of these five services; however, providing one of these services per se is not a condition sufficient to classify the

business as an NBFIs outlet.<sup>7</sup> Each sector is distinct within the NBFIs industry, has particular characteristics, and provides a unique service to the public.

### *3.2 Primary and Ancillary Services*

It is important to distinguish between primary and ancillary services. The term "primary" is used to describe the business activity that provides the chief source of revenue for a business. The term "ancillary" is used to describe the secondary business activities conducted by an organization. The definition of check cashing restricts the focus to the

population of businesses that provide this service as a primary activity. This definition filters out the nearly uncountable number of businesses that cash checks for their customers as an ancillary activity.

"Check cashing as primary" businesses usually provide a wide range of ancillary services—both financial and non-financial.<sup>8</sup> In contrast to check cashing, when conducting cash foreign currency exchange trading as the primary service, businesses usually do not provide more than a few, if any, ancillary services. Currency exchange is offered

exclusively as a primary service sometimes; more often, currency exchange is performed as an ancillary service. Businesses that provide money transmission services usually do so in an ancillary manner. Businesses that sell money orders and travelers checks do so exclusively in an ancillary manner. Exhibit 3-1 illustrates the mode or level of activity (primary vs. ancillary) by sector.

### *3.3 Issuers and Sellers*

In particular, the money order and money transmission sectors are
















characterized by large networks of issuers and sellers<sup>9</sup> and principal-agency relationships.<sup>10</sup> These issuers rely on a distribution network comprised of outlets and agents. Issuers are responsible for developing and administering their own service infrastructures and establishing and managing their agency agreements, including remittance and reporting procedures. The agents are responsible for providing the contracted services—selling the business products, tracking sales and complying with issuer-agent agreements and governing regulations.






As shown in Exhibit 3-1, in the respective cases of the check cashing and currency exchange sectors, the issuer and the seller are conventionally the same—there are few principal-agency relationships. Typically, travelers check issuers sell their products through a combination of company-owned and agency outlets.

Exhibit 3-1  
Prominent Attributes by Sector

[\(Accessibility version\)](#)

NBFI Sector	Service through company outlets	Service through agent outlets	Provided as primary service	Provided as ancillary service
Check Cashing				
Money Transmission				
Money Orders				
Travelers Checks				
Retail Foreign Currency Exchange				

Almost always =   
 Usually =   
 Sometimes =   
 Seldom = 

### 3.4 Mix of Services

While varying by sector and location, organizations tend to package or bundle services to best achieve three major business objectives:

- increase profitability,

- minimize cash on-hand, and
- better serve the needs of customers.

In general, the past ten years may be characterized by a proliferation of NBFIs businesses and their corresponding networks of service outlets. This proliferation has resulted in increased competition and has generally lowered revenue. Also, with increased competition, the business volume of any one service per se at one outlet is not usually sufficient to sustain profitability<sup>11</sup>, which explains the trend for outlets to offer multiple products and services.

Generally, businesses show an improvement in revenues associated with a combination of high-volume, low margin services and low-volume, high margin services.

Offering complementary services that offset cash flow requirements reduces the need to maintain high cash balances. Minimizing cash balances is beneficial for obvious reasons—less interest to pay on working capital loans and reduced lost opportunity on unproductive cash. Also, minimum cash balances reduces risk of loss in the

event of theft.

While the core customer is the "un-banked," or customers who do not maintain formal banking relationships, NBFIs outlets are also very attractive to convenience shoppers who do maintain formal banking relationships. Both customers find it convenient to be able to obtain these services under one roof: <sup>12</sup>

- . Consumer financial services
- . Sales of groceries, drugs and/or personal sundries

- . Travel and transit related services
- . Postal and packaging services.

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#### 4. NBFIs Industry Profile -- The Big Picture

To estimate the sizes and relative positions of the five NBFIs service sectors, we focused on the issuer level and the channels through which issuers sold their products. Generally, we were able to distinguish issuer sales through NBFIs outlets from sales through banks. Sector profiles are provided in sections 5 through 9. Profiles include descriptions of market share in terms of

face value,<sup>13</sup> number of outlets and geographic distribution.<sup>14</sup> Profiles include transaction attributes and limits, and other services commonly offered.

The five NBFI sectors were analyzed from both the issuer and outlet perspectives.

Exhibit 4-1  
Estimated Face Value by Sector for 1996 (in billions)

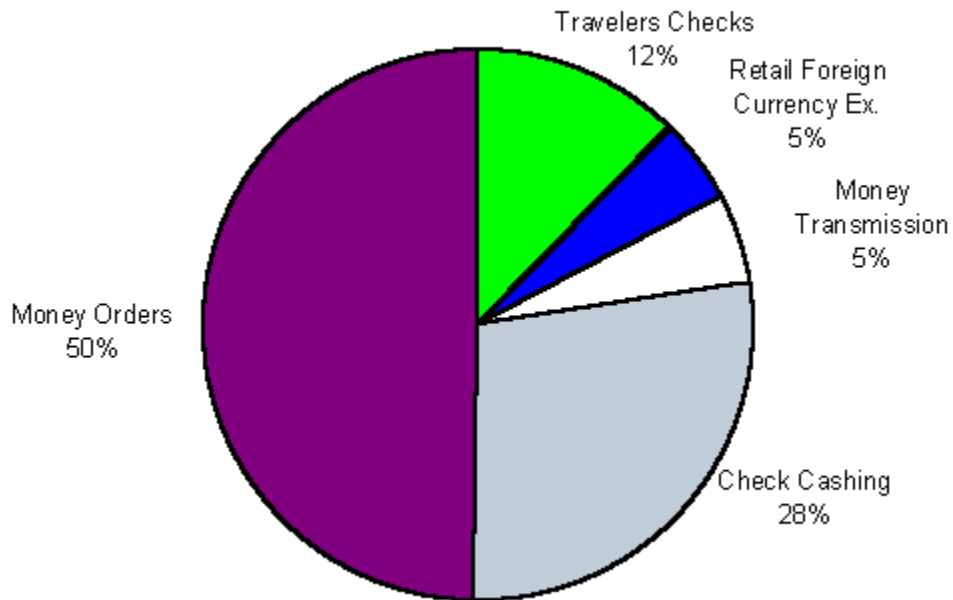
Money Orders	\$98.9
Check Cashing	\$55.0
Travelers Checks <sup>1</sup>	\$24.5
Money Transmission	\$10.8
Retail Foreign Currency Exchange	\$ 9.6
Five Sector Total:	\$198.8

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<sup>1</sup> This amount is attributable to NBFI issuers excluding bank issuers; however, there is some bank distribution of NBFI issued travelers checks that could not be segregated.

Combining the face values of the five sectors, the money order sector, as illustrated in Exhibit 4-2, accounts for approximately half of the entire, five-sector NBFI industry.

**Exhibit 4-2**  
**Face Value of Each Sector**  
**- for 1996 -**



After establishing estimated face value for each sector, the number of outlets, which includes both issuer and agent outlets, was determined. In developing a census, care was taken to identify duplicate listings. For example, a Texas company whose primary service is check cashing, might offer money transfer services and be counted twice—once as a check cashing business and a second time as a money transmission outlet.

**Exhibit 4-3**  
**Estimated Number of Outlets**  
**- for 1996 -**

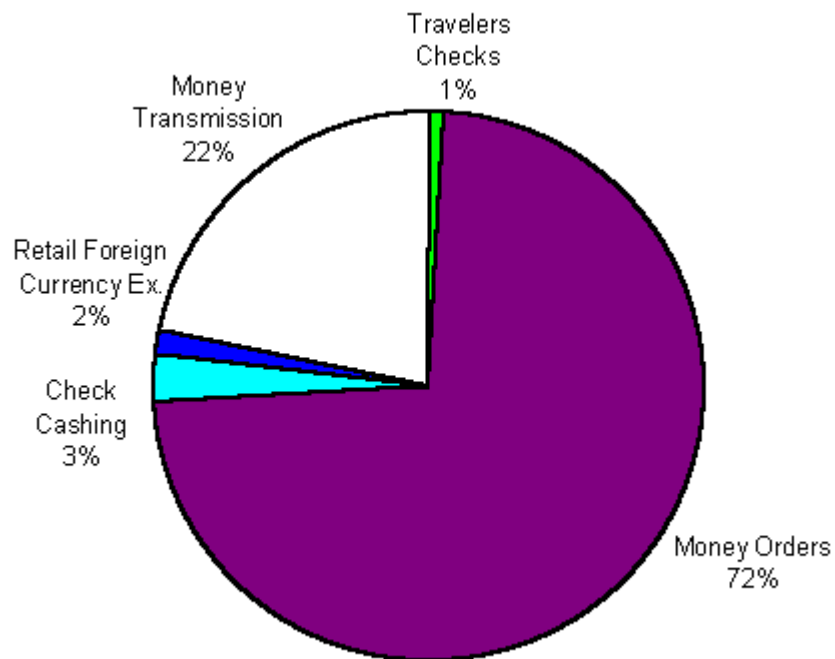
Money Orders	146,000
Money Transmission	43,000
Check Cashing	5,600
Retail Foreign Currency Exchange	3,100
Travelers Checks	1,850



Because multiple services may be offered at a single location, the itemization of individual services available makes it appear as if there are more outlets than there are. The actual number of U.S. locations where these services are available is approximately 158,000.

The money order sector is the largest in terms of number of outlets with 72% of the total (see Exhibit 4-4). In contrast, money transmission services are available at 22% of total outlets, but account for only 5% of the face value of five-sector transactions. The check cashing sector accounts for 28% of the value, but for only 3% of total outlets. While the average check size is roughly the same as the average money transfer amount, check cashing outlets cashed more checks per outlet than money transmission outlets transferred.

**Exhibit 4-4**  
**NBFI Sector Share by Number of Outlets**  
**- for 1996 -**

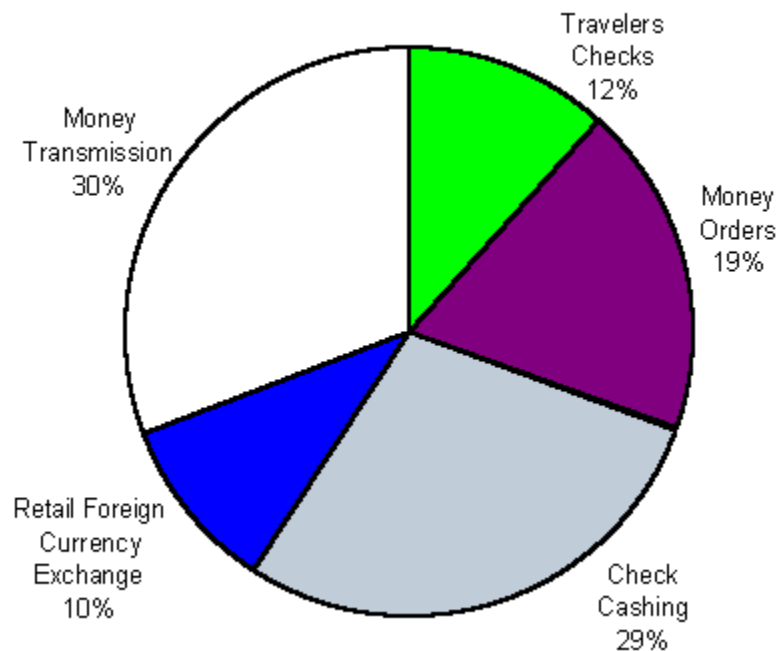


Check cashing, (always a primary service, see Exhibit 3-1) had an average of \$9.8 million in total face value cashed per outlet. Foreign exchange, (sometimes a primary service) had an average of \$3.1 million transferred in face value per outlet. Money order

sales and money transmission (both ancillary services) had a total face value of \$670,000 and \$250,000 per outlet respectively.

Analyzing the five sectors in terms of revenue generated results in an entirely different ranking of them. As demonstrated in Exhibit 4-5, money transmission services, with 30% of the total revenue generated, occupies the largest share of the five sectors, followed by check cashing with 29%.

**Exhibit 4-5**  
**NBFI Sector Share by Revenue**  
**- for 1996 -**



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## 5. Profile of the Money Transmission Sector

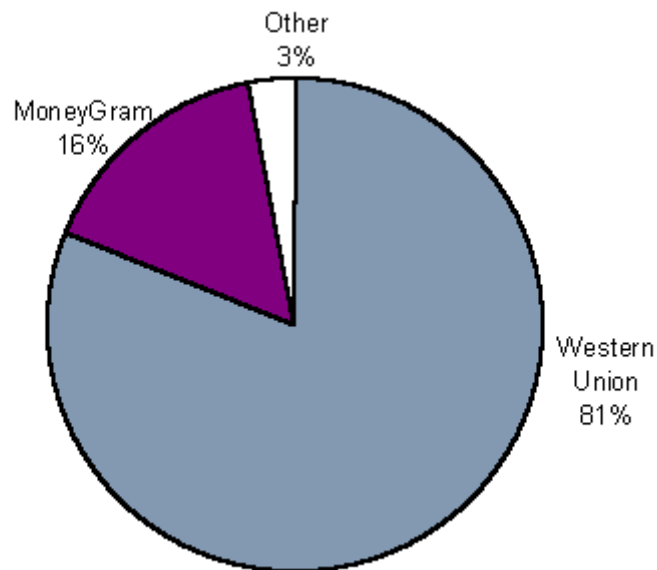
The market for money transmission services has been growing steadily during the last ten years. Over the past five years, the market has been growing at a rate of approximately 15% per year, a trend that is expected to continue for at least the next few years. The international component <sup>16</sup> per se of the transmission market has been growing at 20% for

the last five years. Recent immigrants using international transfer services to send money home has been a major driver of this growth.

Even within the last three years the market share structure of the money transmission sector has changed markedly. In 1993, the market share positions of the two largest players, Western Union and MoneyGram, were 90% and 8%, respectively, in terms of face value, for the U.S. This contrasts to 81% and 16 %, respectively, in 1996 (see Exhibit 5-1).

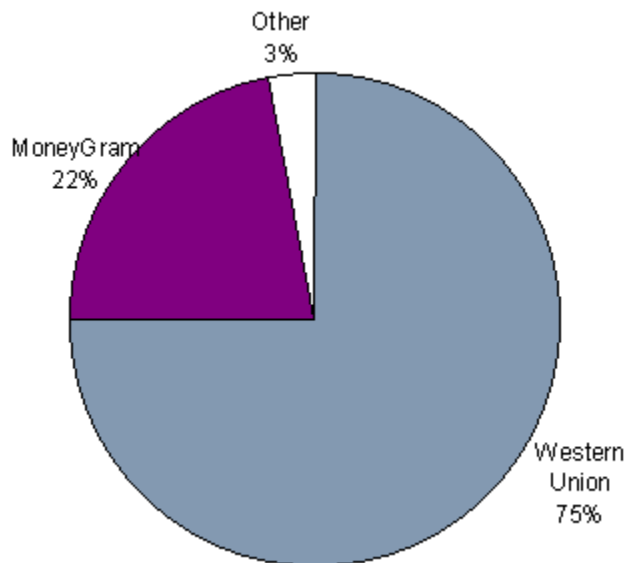
Beginning in 1993, MoneyGram followed an aggressive marketing strategy to increase its customer base, adopting such tactics as price promotions (e.g. its intermittent \$10 per-transfer promotional events) and ethnically-focused advertising. In October 1995, the First Data Corporation, the parent of MoneyGram, acquired control of Western Union as a result of a merger with First Financial Corporation. At the time of the merger, the Federal Trade Commission issued an order to First Data Corporation, requiring it to divest of one of its two money transmission subsidiaries. On December 12, 1996, First Data divested MoneyGram in connection with an initial public offering.<sup>17</sup> Notwithstanding the divestiture of MoneyGram, First Data Corporation is expected to continue to perform the processing functions for both MoneyGram and Western Union.

**Exhibit 5-1**  
**Money Transmission Market Share**  
**- at face value, for 1996 -**



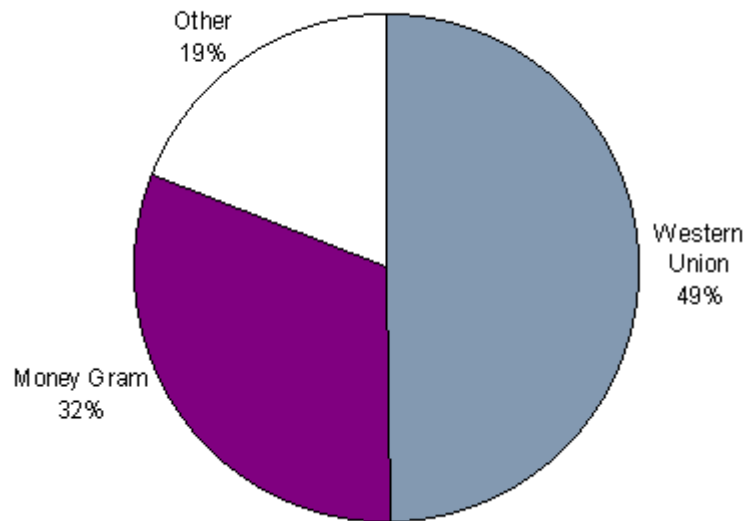
The combined 97% market share of Western Union and MoneyGram is also true for the NBF<sup>18</sup> international market component. MoneyGram's share of the international market, however, is proportionately larger at 22% (compared to 16% domestically), see Exhibit 5-2. Contributing to MoneyGram's international growth is its concentrated marketing tactics directed at Spanish-speaking populations, particularly Mexicans and Mexican-Americans. In 1995, 46% of MoneyGram's funds transferred were sent from the U.S. to Mexico.<sup>19</sup>

**Exhibit 5-2**  
**International Money Transmission Market Share**  
**- at face value, for 1996 -**



While Western Union<sup>20</sup> and MoneyGram make up 97% of the money transmission market in terms of face value, they make up only 81% of the market in terms of number of outlet locations,<sup>21</sup> see Exhibit 5-3.

**Exhibit 5-3**  
**Money Transmission Market Share**  
**- by number of outlets, for 1996 -**



There are approximately 43,000 money transmission outlets in the U.S. Of these, 8,000 are not affiliated with Western Union or MoneyGram. About 75% of these 8,000 are outlets or agents belonging to smaller, ethnically focused, money transmission businesses. Many of these outlets or agents are one-person operations which accept money on behalf of the money transmitters. Others are small, private businesses that transmit money through their own networks (with one or several outlets).

Money transmission outlets are more concentrated in six major states: California, New York, Texas, New Jersey, Florida and Illinois.

#### Exhibit 5-4 (Exhibit 5-4 not included)

Western Union and MoneyGram use a consistent approach of licensing their agents to use their service infrastructures, outlet networks and brand names. In contrast, other providers utilize a wide range of operational techniques. Primary indicators of the money transmission service sector are highlighted and summarized in Exhibit 5-5.

#### Exhibit 5-5 Money Transmission Profile<sup>1</sup> - for 1996 -

Total face value of money transferred	\$10.80 billion
Revenue derived from money transfers <sup>2</sup>	\$1.15 billion

Total number of money transfers	36 million
Average money transfer amount	\$300
U.S. to U.S.	\$240
U.S. to Foreign	\$320
Fee range <sup>3</sup>	6% to 15%

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<sup>1</sup> Estimates based on industry data, interviews, and sampling

<sup>2</sup> Includes fee, foreign exchange, and investment

<sup>3</sup> Depends on send amount and destination

## Other Notable Characteristics

The rapidly growing demand for money transmission services to Mexico has attracted new market entrants. For example, the Postal Service has recently entered the Mexican marketplace, offering in a pilot program a "fifteen minute" money transfer product through Bancomer, Mexico's largest retail bank. <sup>22</sup> Smaller transfer agents are also developing business networks in Mexico and Latin America. <sup>23</sup>

A number of the smaller money transmission businesses focus on the newly immigrated and second generation populations. These niche customers are willing to pay a premium for value-added services, for example, receiving informal news from other countries. These niche transmitters often are bilingual and knowledgeable about the country at the other end of the transaction. The locale of the smaller transmitter frequently serves a social function, providing a public venue for meeting neighbors and friends.

While not uniform, twenty-three states have licensing requirements for money transmission "issuers". Some states, for example New York, also require each licensed issuer to register the names and locations of each of its legal agents or vendors. While no state regulates money transmission fees, the entry of additional NBFIs and deposit-taking institutions into the money transmission market sector will likely lead to a reduction in average fees charged.

The maximum "send amount" of a money transfer is often a function of destination and the provider (issuer). For larger money transmitters, the maximum amount is often limited to \$10,000, while for smaller transmitters the maximum is generally \$3,000 per transaction. Some transmitters also limited total daily transfers to either \$10,000 or \$20,000 by sender. Sender identification requirements varied considerably among

transmitters and varied accordingly to the amount transmitted. Types of businesses commonly offering money transfer services are listed in Exhibit 5-6.

**Exhibit 5-6**  
**Places Where Money Transmission Services Are Offered in the U.S.**

<i>As Primary Service</i>
Money transmission companies (usually ethnically focused)
<i>As Ancillary Service</i>
Check cashing outlets
Supermarkets
Grocery stores
Drug stores
Convenience stores
Travel agencies
Foreign currency exchanges
Bus stations
Collection agencies

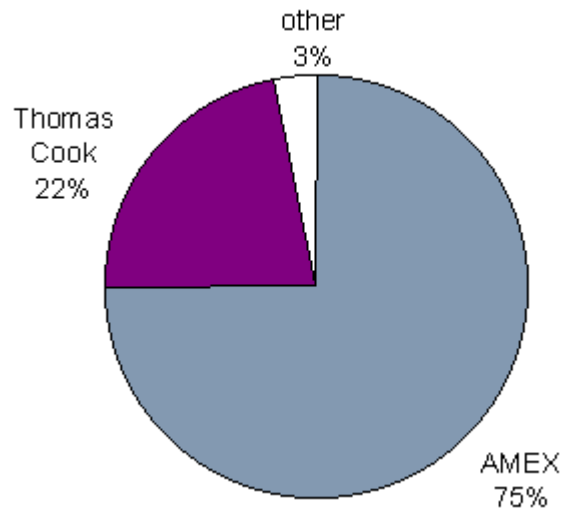
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## 6. Profile of the Travelers Check Sector

The travelers check sector has the same level of concentration as the money transmission sector, with the top two issuers making up 97% of the market, see Exhibit 6-1. American Express (AMEX), occupying the larger market share, with 75%, sells travelers checks through its own travel-related service offices and through agencies, primarily the American Automobile Association (AAA). The second largest issuer is Thomas Cook,<sup>24</sup> with 22% of the total market, which sells travelers checks primarily through their own outlets.

Compared to the money transmission sector, the travelers check sector is the more mature, characterized by slower growth averaging less than 5% per year. Issuers' marketing tactics include building and strengthening broad, international acceptance networks and brand equity for their checks.

**Exhibit 6-1**  
**U.S. Market Share for Travelers Checks<sup>25</sup>**  
**- at face value, for 1996 -**



There are approximately 1,850 NBFI locations that sell travelers checks in the U.S.

**Exhibit 6-2**  
(Exhibit 6-2 not included)

Generally, outlets that carry American Express travelers checks carry single- and dual-signature checks. For dual signature checks, only one of the two signatories needs to be present to purchase them. Thomas Cook also offers single- and dual-signature checks.<sup>26</sup> Both issuers require the purchaser to sign all checks on the premises at the time of purchase. American Express offers checks in seven currencies <sup>27</sup> and Thomas Cook offers them in eleven.<sup>28</sup> On the acceptance side, travelers checks are as negotiable as cash.

Company policies do not generally limit the purchase amount of travelers checks by customer by visit. However, company policies do generally require payment by certified check for purchases for more than \$10,000 and to a lesser extent, policies tend to limit cash purchases to \$3,000. Issuers generally require that outlets and agents authenticate certified checks before issuing travelers checks. AAA requires membership card identification. Primary indicators of the travelers check sector are highlighted and summarized in Exhibit 6-3.



## Exhibit 6-3

### Travelers Check Profile <sup>1</sup> - for 1996 -

Total face value of checks sold <sup>2</sup>	\$24.50 billion
Revenue derived from travelers checks sales <sup>3</sup>	\$0.44 billion
Average transaction amount	not available
Average agent fee per check	1%
Agent fee range <sup>4</sup>	0% to 1%

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<sup>1</sup> Estimates based on industry data, representative interviews and sampling.

<sup>2</sup> For all NBFIs travelers check issuers; however, there is some bank distribution of NBFIs issued travelers checks that could not be segregated.

<sup>3</sup> Includes fee and investment revenue

<sup>4</sup> Depends on type of check

## Other Notable Characteristics

Travelers check issuers operate through bank and non-bank networks. Forty-one states have licensing requirements governing their issuance. Usually sold as ancillary products, outlets often provide travelers checks as a value-added service to their customers. Outlets generally retain the fees they charge on the checks; issuers generate most of their revenues from the interest float<sup>29</sup> and do not usually require pre-payment from agents for checks inventory. Exhibit 6-4 lists other products sold at outlets selling travelers checks.

Exhibit 6-4 Other Products and Services Offered By Travelers Check Sellers in the U.S.
Foreign currency exchange
Currency drafts

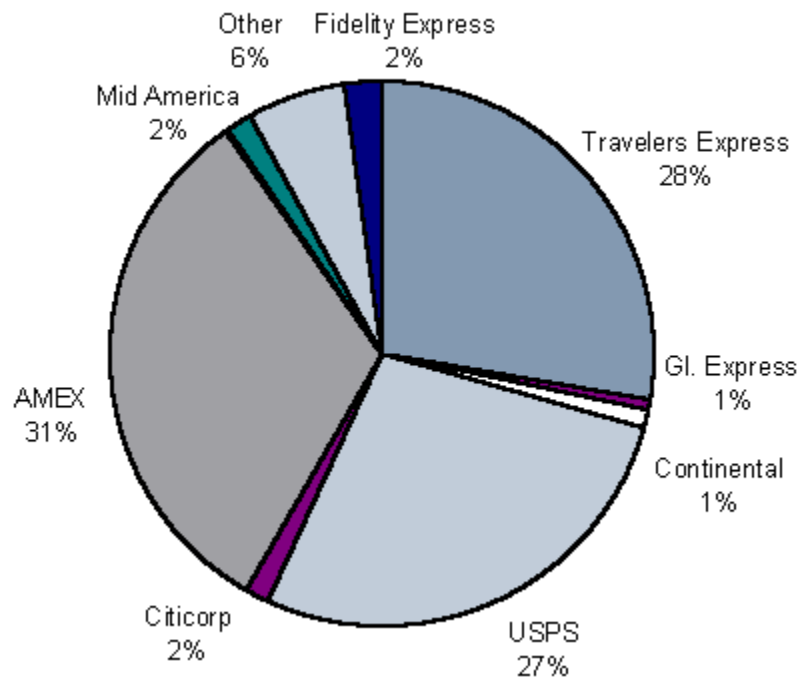
Money transmission
Foreign check collection
Precious metal coins and bars
Cashing and replacing travelers checks
Foreign currency exchange
Ticket bookings and reservations
Other travel agency services

## 7. Profile of the Money Order Sector

The money order sector is somewhat less concentrated than the money transmission and travelers check sectors—three issuers, with almost equal market shares, comprise 88% of the market in terms of revenue generated and in terms of number of outlets, see Exhibit 7-1. The First Data Corporation issues money orders under the American Express name. The Viad Corporation issues money orders under the name of Travelers Express. The Postal Service issues money orders under its own name.

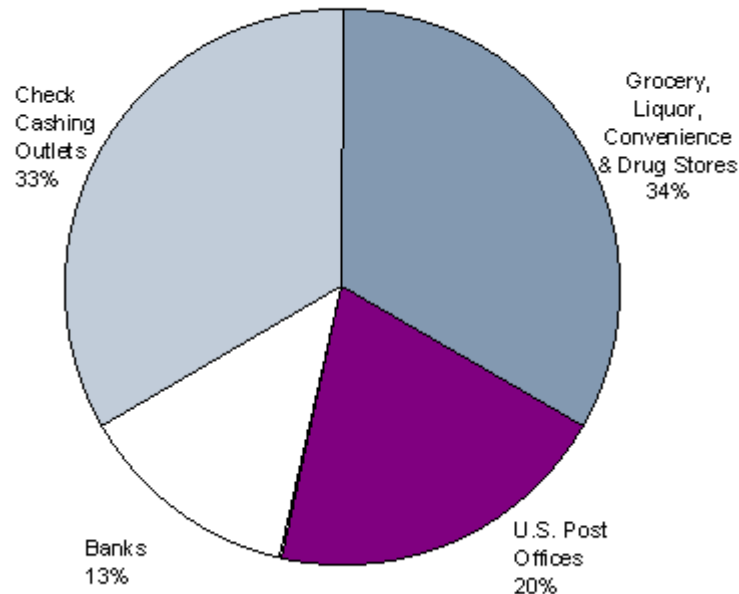
The second tier of businesses is made up of regional issuers, each representing 1% to 2% of the market. These issuers sell money orders through their own substantial agent networks. The third tier of businesses (i.e. the "other" category) is made up of grocery, convenience and drug stores that issue their own money orders on a more-local basis.<sup>30</sup> Many of these "others" are licensed to issue money orders in only one state. Exhibit 7-1 shows issuers' outlets by money order brand.

**Exhibit 7-1**  
**Money Order Market Share for 1996<sup>31</sup>**  
 - at face value -



The money order sector is a fairly mature market with domestic annual growth of less than 5%. In a manner consistent with the money transmission sector, the international component (all money orders except for U.S. to U.S. destinations) is growing more quickly, from 6% to 7% annually. While money orders are also sold at banks, the primary avenue of sale is NBFIs outlets, see Exhibit 7-2.

**Exhibit 7-2**  
**U.S. Sales of Money Orders**  
**- at face value, for 1996 -**



Money orders are readily available through a wide variety of retail establishments and post offices. It is estimated that money orders are sold at approximately 146,000 locations throughout the U.S.

**Exhibit 7-3**  
(Exhibit 7-3 not included)

Because money orders are viewed as a commodity product available virtually anywhere, most outlets do not find it to their benefit to advertise the product through print and other media advertising. Of the 146,000 outlets, only 1,183, less than 1% of the total outlets, advertise under the heading "money orders" in yellow page directories. The businesses that do advertise in the yellow pages often advertise the availability of multiple financial services. In many cases, the "money order service" listing is intended to attract check cashing and money transmission.

Forty-one states maintain licensing requirements for issuers of money orders. Issuers are responsible for establishing and maintaining agent agreements, generally allowing agents to set their own rates. Because of the competitive nature of the market, money order sales revenue is the lowest among the five NBFIs sectors. Respondents indicate that they do not always charge for money orders when used in conjunction with other services, such as check cashing. Some respondents even sell money orders at a loss, to attract other business and increase cash balances. A profile of the money order sector is provided as Exhibit 7-4.

## Exhibit 7-4

### Money Order Profile <sup>1</sup> - for 1996 -

Total face value of money orders processed	\$98.90 billion
Revenue derived from money order sales <sup>2</sup>	\$0.70 billion
Total number of money orders processed	970 million
Average face amount of money order	\$102
Average fee per money order	\$0.72
Agent fee range <sup>3</sup>	\$0 to \$7.50

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<sup>1</sup> Estimates based on industry data, site visits and sampling.

<sup>2</sup> Fees

<sup>3</sup> Usually tiered fee structure

## Other Notable Characteristics

During the period 1990 to 1995, average money order purchase amount increased by 48%, while total number of transactions grew only 16%).<sup>32</sup> The average face value of a money order sold in 1996 was \$102 or 4% higher than for the previous year. The maximum face value of a money order varies considerably as a matter of issuer policy (generally between \$500 and \$1,000).

According to one Nilson Report,<sup>33</sup> money orders as a form of payment, account for only 2% of the face value of all consumer payments made in the U.S. Travelers checks account for only 1%. (See Exhibits 7-5 and 7-6). As forms of payment, personal checks and cash are the most prevalent in terms of face value and number of transactions.

## Exhibit 7-5 Payment Usage by Principal

- for 1995 -

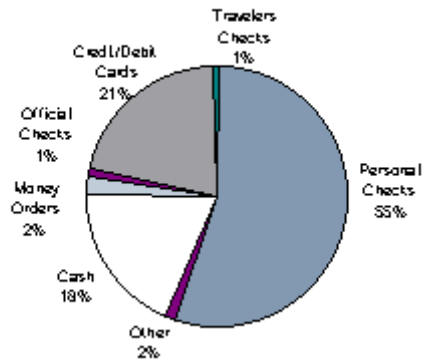
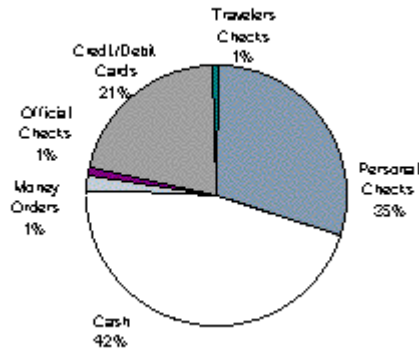


Exhibit 7-6  
1995 Payment Usage by Number of Transactions



- for 1995 -

With the notable exception of the Postal Service, issuers and outlets rarely know the ultimate disposition of the money orders they sell whether they were cashed domestically or sent abroad. The Postal Service knows because their money orders are specifically designated as either domestic or international. In addition, the Postal Service guarantees that its money orders cashed through foreign postal administrations will not incur any subsequent charges to the payee.

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## 8. Profile of the Retail Foreign Currency Exchange Sector

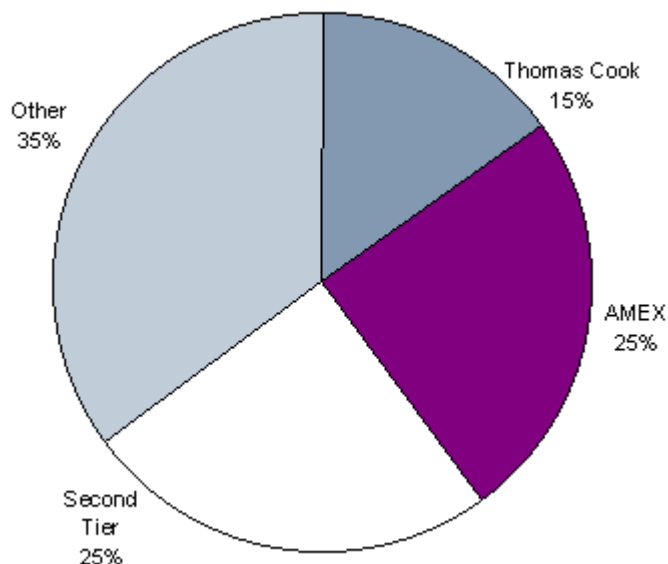
Of the five NBFIs considered, the retail foreign currency exchange sector is the most challenging to assess. This is because this sector is not easily segmented from larger retail and wholesale activities and because there is little data available at the industry and state levels. From a business activity perspective, the cash, over-the-counter retail foreign

exchange sector is functionally a sub-subsegment of the total retail foreign exchange market. The first segmentation occurs at the NBFIs level—most cash foreign exchange is handled by banks. The second segmentation occurs at the payment level, i.e. cash vs. non-cash. Businesses tend to conduct transactions without distinguishing between cash and non-cash for management reporting purposes. Accordingly, businesses, associations, federal government agencies and federal reserve banks tend not to separately track cash, over-the-counter, subsegment volume and performance.

The top two NBFIs companies engaging in the currency exchange sector account for approximately 40% of the market, see Exhibit 8-1. Several small to medium sized-companies or second tier companies like Travelex America, Inc.,<sup>34</sup> International Monetary Exchange, Inc. (IMEX), Avis, Ruesch International and Associated Foreign Exchange, Inc. (AFEX), together account for another 25% of the market. The companies in this category tend to be regional and have larger foreign exchange businesses, primarily corporate, with a lower level of over-the-counter business.<sup>35</sup>

The final category of 35% represents small businesses, commonly referred to as casas de cambio or bureaux de change.

**Exhibit 8-1**  
**Retail Foreign Currency Exchange Market Share**  
**- for 1996 -**



It is estimated that there are approximately 3,100 outlets offering retail foreign currency exchange. Outlet locations tend to be concentrated in California, Texas, New York, Florida and Illinois.

**Exhibit 8-2**  
(Exhibit 8-2 not included)

Primary indicators of the retail foreign currency exchange sector are highlighted and summarized in Exhibit 8-3.

**Exhibit 8-3**

**Retail Foreign Currency Exchange Profile<sup>1</sup>**  
**- for 1996 -**

Total amount of retail foreign currency traded through NBFIs	\$9.60 billion
Revenue derived from trading retail foreign currency	\$0.38 billion
Total number of transactions	32 million
Average trade amount	\$300
Agent margin on trades	3% to 8% over spot rate

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<sup>1</sup> Estimates based on industry data, site visits and surveys.

**Other Notable Characteristics**

There appears to be no "industry" standard for maximum currency transaction amounts. Generally, the smaller businesses perform foreign currency trading as their primary activity; the larger companies as ancillary to activities such as travel, tourism and corporate foreign exchange. Five states have some form of licensing requirement for



companies engaging in foreign currency trade.<sup>36</sup> Other services commonly provided by currency exchange businesses are listed in Exhibit 8-4.

Exhibit 8-4 Services Offered by Companies Engaging in Retail Foreign Currency Exchange
Over-the-counter, cash foreign exchange
Corporate foreign exchange, spot and forward contracts
Corporate cash management
Travel insurance (Travelex)
Wire transfer services - through banks
Foreign drafts
Foreign check conversion
Foreign deposits
Dealings with non-convertible or exotic currencies
Phone cards
Currency drafts
Money transmission
Foreign check collection
Precious metal coins and bars
Cashing and replacing travelers checks
Foreign currency exchange
Ticket bookings and reservations
Other travel agency services

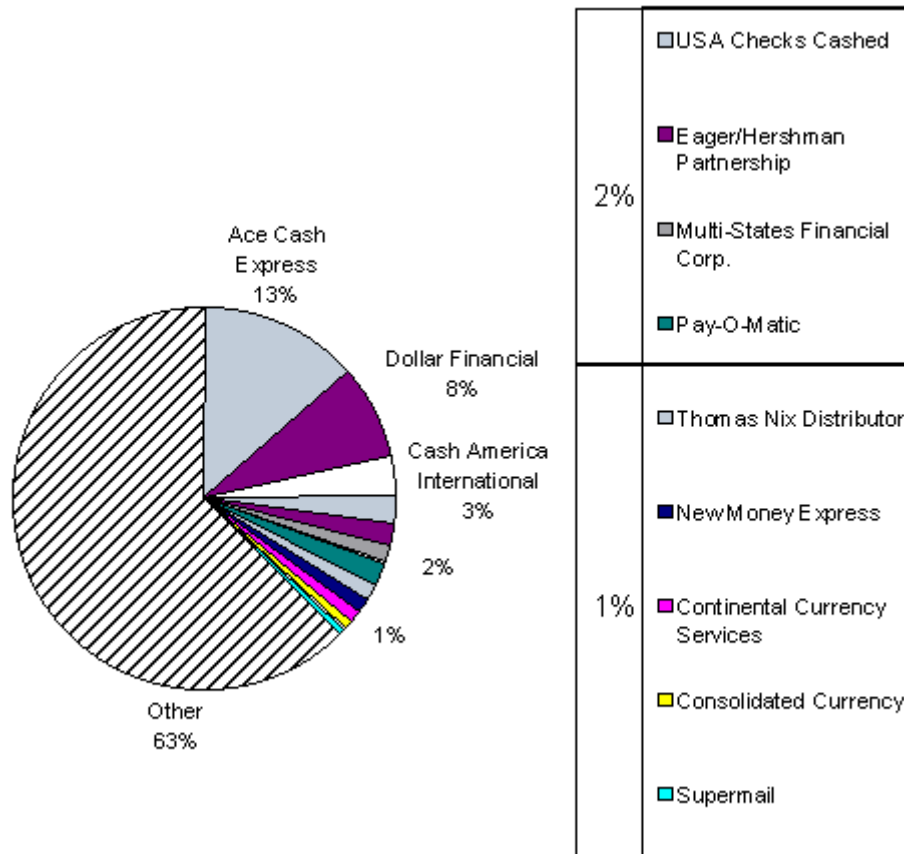
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## 9. Profile of the Check Cashing Sector

Check cashing is the most fragmented of the five sectors, with the two largest companies accounting for slightly more than 20% of aggregate face value. For purposes of attributing market share, it was determined that the number of outlets serves as a good approximation of the total face value of checks cashed. See Exhibit 9-1.

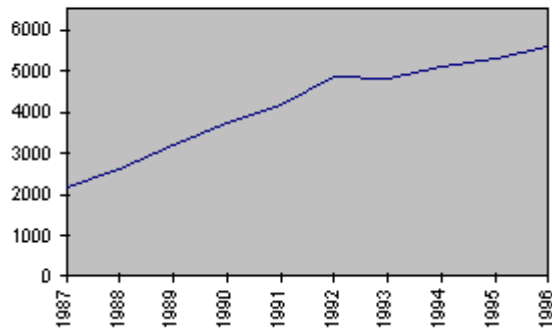
Exhibit 9-1  
Check Cashers Market Share  
- based on number of outlets, for 1996 -

(Accessibility Version)



The check cashing sector has experienced rapid growth. Despite merger and acquisition activity, the number of check cashing outlets has increased by 260% over the last ten years to a total of approximately 5,600 as shown in Exhibit 9-2.

**Exhibit 9-2**  
**Growth in Number of Check Cashing Outlets**  
**for the ten-year period ended 1996**



Growth in the check cashing marketplace is attributable to businesses successfully establishing outlets within communities, resulting in a high degree of sector fragmentation. Several larger national chains have merged with or acquired smaller companies seeking to increase their market share and penetration. Some parent companies own several chains of check cashing businesses. Community business owners (see Exhibit 9-1, the "Other" category) conventionally operate one to three stores.

### Exhibit 9-3

(Exhibit 9-3 not included)

In addition to having licensing requirements, twelve states have established price ceilings on fees, ranging from 1% in Delaware to 10% in Georgia. In states that have high ceilings, or in states without price controls, market forces seem to restrict fees to fairly narrow ranges for categories of checks (e.g. lower for government assistance checks and higher for personal checks). Five additional states have licensing requirements. New Hampshire does not permit check cashing (as a primary business) within its borders.<sup>37</sup> Key indicators of the check cashing sector are highlighted and summarized in Exhibit 9-4.

### Exhibit 9-4

#### Check Cashers Profile

- for 1996 -

Total face value of checks processed	\$55.00 billion
Revenue derived from check cashing outlets	\$1.07 billion
Total number of checks cashed	180 million

Average face amount of check	\$306 <sup>2</sup>
Average fee per check	2% <sup>3</sup>
Per cent of outlet revenue attributable to check cashing fees	55% to 80%

<sup>1</sup> Estimates based on industry data, interviews, and sampling.

<sup>2</sup> The conventional range for average face amount is \$285 to \$310.

<sup>3</sup> This estimate is lower than most industry estimates.

### Other Notable Characteristics

Payroll checks and government checks are the first and second most common types of checks, respectively, cashed by NBFI check cashing outlets, followed by personal checks, third party checks and insurance drafts.<sup>38</sup> While on a national basis, check cashing policies and fee structures vary considerably, a policy conventional among check cashers is to cash in-state checks only. A number of them accept and cash out-of-state checks for a 1% to 2% surcharge. A notable trend in the check cashing sector is the growing popularity of deferred check cashing services, or "payday loans", essentially short term loans, usually carrying high annualized interested rates.<sup>39</sup>

Generally, smaller check cashing businesses charge higher fees than do larger ones. NBFI check cashing fees typically account for 60% to 80% of an outlet's total revenue (depending on the ancillary product mix). Money transmission, the second largest revenue generating service, account for 5% to 25% of an outlet's revenue, and the two taken together generally accounted for 80% to 90% of total revenue. An outlet's ancillary services, especially money transmission, support the cash needs of the check cashing business. Secondary services commonly offered by check cashing outlets are detailed in Exhibit 9-5.

Exhibit 9-5 Secondary Products and Services Commonly Offered by Check Cashing Outlets
Money transmission
Money orders (sale, not issuance)
Electronic bill payment services
Electronic tax preparation and filing
Electronic government benefit distribution

Welfare benefit and food stamp distribution
Public transportation fares and tokens
Lottery tickets
Distribution of license plates and motor vehicle licenses
Telegrams and telex services
Courier, packaging and shipping
Postal services
Jewelry
Beepers

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## End Notes

- 1 "Face value" is defined in Section 4.0, NBF Industry Profile -- The Big Picture.
- 2 Also discount warehouses and superstores.
- 3 For simplicity, this sector is referred to as "currency exchange."
- 4 *31 USC 5312*. This section lists types of bank and non-bank financial institutions. The five service sectors examined in this study are listed in this Code section.
- 5 Throughout this report the business activities of the five sectors are referred to interchangeably as products or services, depending on context.
- 6 I.e., one of the five NBF sectors under study.
- 7 For example, cashing checks for customers does not qualify a liquor store or a laundry as an NBF outlet; however, selling money orders does. There are numerous businesses, grocery and drug stores, for example, which cash checks as a service to customers. There are also businesses, hotels for example, which exchange foreign currencies for their customers. These types of businesses operate outside the formal check cashing and foreign currency sectors and are not included in this analysis.
- 8 There were few instances of business outlets offering one of the five services exclusively. Examples of those that offer only one service are mobile check cashing businesses (moving vehicles), which cash payroll checks; international money transfer firms, which send money to a few countries (an "ethnic business" occupying a specific market niche) and casas de cambio, which exchange foreign currency and often provide no other services.
- 9 Issuers include conventional money order and travelers check issuers, and businesses that own or originate money transmission, check cashing or foreign currency exchange services.
- 10 The U.S. Postal Service (Postal Service) is the major exception. The Postal Service does not license agents to sell money orders; rather, it sells exclusively through its own outlets.
- 11 The term "profitability" is used here in the context of the marketplace generally. One of the objectives of this study was "to determine, to the extent possible, (1) the percentage of total revenue derived from financial services of each of the five types; and (2) the gross dollar volume of total revenue derived from financial services of each of the five types." An analysis of expenses was not undertaken.
- 12 Of course, it is similarly convenient for the core, unbanked customer to be able to cash paychecks and purchase money orders for paying monthly bills in the same visit, and for both customers, to buy travelers checks and to simultaneously convert U.S. dollars to foreign currencies for travel abroad.

- 13 Face value means principal amount of the transaction:
  - For check cashers, it is the sum of all checks cashed (primary activity) through NBFIs outlets
  - For money transmitters, the sum of all money originated and transferred by NBFIs outlets
  - For money orders sellers, the sum of all money orders sold through NBFIs outlets
  - For travelers check sellers, the sum of all travelers checks sold through NBFIs outlets
  - For currency exchange, the sum of all cash, over-the-counter, NBFIs foreign currency exchange transactions.Principal is referred to as "face value" rather than transaction amount because of a lack of standards. Some sectors include transaction fee and principal when referring to transaction amount while others include only transaction principal.
- 14 The distribution includes locations in the continental U.S. plus Alaska and Hawaii.
- 16 The international component refers to U.S. to foreign, foreign to U.S., and foreign to foreign transfers by U.S. NBFIs.
- 17 Federal Trade Commission, Dockets No. C-3646 and C-3647.
- 18 In addition to a more formal, easier-to-identify NBFIs money transmission market, there is also a less formal, more difficult to track money transmission market. In this regard, telephone surveys and interviews demonstrated that some first and second generation immigrants remit money to their countries of origin through embassies, ethnic stores, and religious organizations. In addition, certain businesses which at first glance seem to fall with the "Other - 3%" category are actually using established banking networks to transfer money.
- 19 In 1995, 44% of MoneyGram's total number of transactions were between U.S. locations, 44% were from the U.S. to Mexico and 11% involved one or more international location other than Mexico. SEC Disclosure, EDGAR Filing, 6/13/96, p. 14.
- 20 While most NBFIs money transmission businesses cater to consumers, commercially oriented services are becoming increasingly prevalent. For example, Western Union offers "Quick Collect" which allows businesses to directly transfer money internationally. User companies can send or receive money at their own offices on-line. Funds can be presented in the form of a check printed out at the user's office or be direct deposited into the user's account within three business days. Transfers are limited to \$3,000 per transaction.
- 21 Check cashers and supermarkets generate approximately 80% of MoneyGram's send volume despite accounting for only 30% to 35% of MoneyGram's agent locations. SEC Disclosure, EDGAR Filing, 6/13/96, p. 40.
- 22 Bancomer is Mexico's second largest bank in terms of asset size.
- 23 Most of these small transfer agents are located in California, Texas and New York.
- 24 Francheque, which is affiliated with Thomas Cook and Societe Francais du Cheque de Voyage and Travelers Cheques Associates, which are both affiliated with American Express are not separately distinguished in this presentation.
- 25 Travelers checks sold exclusively in the U.S.
- 26 Dual signature checks have surcharges.
- 27 U.S. dollars, Canadian dollars, German marks, British pounds, Swiss francs, Japanese yen and French francs.
- 28 U.S. dollars, Canadian dollars, German marks, British pounds, Swiss francs, Japanese yen, French francs, Australian dollars, Dutch guilders, Spanish pesetas and Swedish kronor.
- 29 Interest float is the interest earned on dollars invested after consumers have purchased the checks and the agent has remitted the purchase amount to the issuer.
- 30 Not included in this analysis are NBFIs companies that issue negotiable, paper instruments, licensed as "issuers of checks", but that do not formally issue money orders. One example of such a company is Comdata Network, which issues "comchecks" used by the transportation and gaming industries.
- 31 American Express and Citicorp money orders are issued through First Data Corporation. The First Data Corporation issues American Express money orders with the understanding that they will rebrand the money orders by April 1997. First Data plans to rebrand all AMEX money orders as Western Union or Integrated Payment Systems (IPS).
- 32 Nilson Report 632, November 1996, pp. 6 and 7.
- 33 Nilson Report 632, November 1996, pp. 6 and 7.
- 34 Travelex operates primarily in airports and other transit stations.
- 35 AFEX is an example of a company that has only three or four "cash windows" in one or two states.
- 36 Arizona, California, Florida, Illinois and Texas.
- 37 Check cashing is considered private banking, prohibited in the state of New Hampshire.
- 38 A 1994 study of 60 check cashing outlets in 20 cities showed that 33% of all outlets were willing to cash

personal checks for a fee range between 1.7% and 20%. The average fee was 7.7%. (John Caskey, Fringe Banking, Russell Sage Foundation, USA, 1994, p. 59).

- 39 One large check cashing chain reported the average size check for "deferred cashing" in 1996 was in the range of \$150 to \$200; a second check cashing chain report profit of \$.55 for every dollar of fee collected.

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